

# BUDGET GLOSSARY

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The Annual Budget contains specialized and technical terminology that is unique to public finance and budgeting. To assist the reader of the Annual Budget document in understanding these terms, a budget glossary has been included in this document.

**Abatement**: A complete or partial cancellation of a tax levy imposed by a government.

**Accrual Accounting**: A basis of accounting in which debits and credits are recorded at the time they are incurred as opposed to when cash is actually received or spent.

**Adjustment for Accounting Interpretations**: The budget's property tax levy is received in the year after the budget. In order to adjust for Accounting Interpretation Three whereby the prior year's levy is utilized, an adjustment for accounting interpretation is used to adjust fund balances.

**Adjustment of Balance to Revenue for Encumbrances**: This adjustment is used in the General Fund to account for encumbrances that have been re-appropriated. In order to eliminate the appearance of deficit budgeting, a revenue transfer amount, entitled "application of restricted fund balance for encumbrances", is budgeted and then offset by the adjustment of balance to revenue for encumbrances.

**Adjustment for Non-Recurring Transfers**: This adjustment is used in the General Fund to account for the Administrative Services Department's appropriation of the prior year's year-end excess cash. This allows General Fund expenditures to reflect operating expense only, and eliminates the appearance of deficit budgeting.

**Alternate Bonds**: General obligation bonds that, rather than being repaid by village-wide property taxes, are retired by specifically pledged revenue streams, i.e., sales taxes, water revenues, etc.

**Amortization**: Gradual reduction, redemption or liquidation of the balance of an account according to a specified schedule of times and amounts. Also, provision for the extinguishment of a debt by means of a Debt Service Fund.

**Assessed Valuation**: A valuation set upon real estate by the Township Assessor and Supervisor of Assessments as a basis for levying taxes.

**Assets**: Property owned by a government that has a monetary value.

**Bond**: A written promise to pay (debt) a specified sum of money (principal) at a specified future date (maturity dates) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used for long-term debt. When a government pledges its full faith and credit to the repayment of the bonds it issues, then these are known as general obligation bonds. Bonds with principal and interest that are payable exclusively from the earnings of an Enterprise Fund are known as revenue bonds. Bonds with principal and interest that are payable exclusively from Village-wide property taxes are known as general obligation bonds.

**Budget**: Plan of financial operation, embodying an estimate of proposed expenditures for a given period and the proposed revenue estimates of financing them. Used without qualification, the term usually indicates a financial plan for a single fiscal year.

**Budget Calendar:** The schedule of key dates or milestones that Village departments follow in the preparation, adoption and administration of the budget.

**Budget Document:** The official written statement prepared by the budget office and supporting staff that presents the proposed budget to the legislative body.

**Budgetary Control:** The control or management of a governmental unit or enterprise in accordance with an approved budget for the purpose of keeping expenditures within the limitations of available appropriations and available revenues.

**Capital Improvement Program:** Plan for capital expenditures to be incurred each year over a fixed period of several future years, setting forth each capital project, identifying its expected beginning and ending date, the amount to be expended in each year, and the method of financing those expenditures.

**Capital Equipment:** Expenditures for the acquisition of capital assets, i.e., vehicles, operating equipment, office equipment.

**Capital Projects:** Projects involving the purchase or construction of capital assets. Typically a capital project encompasses a purchase of land and/or the construction of a building or facility.

**Cash Accounting:** A basis of accounting in which transactions are recorded when cash is either received or expended for goods and services.

**Cash Management:** The management of cash necessary to pay for government services while investing temporary cash excesses in order to earn interest revenue. Cash management refers to the activities of forecasting the inflows and outflows of cash, mobilizing cash to improve its availability for investment, establishing and maintaining banking relationships, and investing funds in order to achieve the highest interest and return available for temporary cash balances.

**Contingency Account:** A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted for.

**Debt Service:** The Village's obligation to pay for the principal and interest of all bonds and other debt instruments according to a predetermined payment schedule.

**Debt Service Funds:** Funds created to pay for the principal and interest of all bonds and other debt instruments according to a predetermined schedule.

**Deficit:** The excess of expenditures over revenues during an accounting period; or, in the case of Enterprise and Intergovernmental Service Funds, the excess of expense over income during an accounting period.

**Depreciation:** The process of estimating and recording the lost usefulness, expired useful life or diminution of service from a fixed asset that cannot or will not be restored by repair and will be replaced. The cost of the fixed asset's lost usefulness is the depreciation or the cost to reserve in order to replace the item at the end of its useful life.

**Eliminations:** When funds are consolidated, transactions between funds are eliminated in order to eliminate double accounting.

**Encumbrance:** The commitment of appropriated funds to purchase an item or service. To encumber funds means to set aside or commit funds for future expenditures.

**Enterprise Fund:** A fund established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Village Board is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, i.e., water utility, parking system.

**Equalized Assessed Valuation:** Board of Review, on a county basis, reviews assessed valuation of all townships and may assign multipliers to equalize assessed valuations from township to township. If necessary, the State will then assign multipliers for counties in order that all property will be assessed at 33⅓ percent of market value.

**Executive Summary:** The opening section of the budget provides the Village Board and the public with a general summary of the most important aspects of the budget, changes from the current and previous fiscal years, and the views and recommendations of the Village President.

**Expenditure:** This term refers to the outflow of funds paid or to be paid for an asset obtained or goods and services obtained regardless of when the expense is actually paid. This term applies to all funds. *Note:* An encumbrance is not an expenditure. An encumbrance reserves funds to be expended.

**Fiscal Year:** A twelve-month period that the annual operating budget applies at the end of which a determination of financial position and results of operations is carried out by the government.

**Fixed Assets:** Assets of long-term character that are intended to continue to be held or used, such as land, buildings, machinery, furniture and other equipment.

**Full Faith and Credit:** A pledge of the general taxing power of a government to replay debt obligations (typically used in reference to bonds).

**Full-Time Equivalent Position (FTE):** A part-time position converted to the decimal equivalent of a full-time position based on 2,090 hours per year. For example, a Head Start teacher working for nine months, or 1,560 hours, would be equivalent to 0.75 of a full-time position.

**Fund:** A budgetary and accounting entity that is segregated from other funds for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

**Fund Balance:** The fund equity of governmental funds and trust funds (excess of assets over liabilities).

**Fund Type:** In governmental accounting, all funds are classified into eight generic fund types: General, Special Revenue, Debt Service, Capital Projects, Special Assessment, Enterprise, Internal Service, and Trust and Agency.

**General Fund:** The fund used to account of all activities of a government except those required to be accounted for in another fund.

**General Obligation Bond:** Bonds that have the full faith and credit of the issuing government or agency to be used or expended for a specified purpose or activity.

**Grant:** A contribution of assets (usually cash) by one governmental unit or other organization to another. Typically, these contributions are made to local governments from the state and federal governments. Grants are usually made for specified purposes.

**Intergovernmental Revenues:** Revenues from other governments in the form of grants, entitlements, shared revenues or payments in lieu of taxes.

**Internal Service Fund:** A fund used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government on a cost reimbursement basis.

**Investment:** Securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals or base payments.

**Line-Item Budget:** A budget that lists each expenditure category (salary, materials, telephone service, travel, etc.) separately, along with the dollar amount budgeted for each specified category.

**Long-Term Debt:** Debt with a maturity of more than one year after the date of issuance.

**Mission Statement:** A brief description of functions and objectives rendered by an organization for the community it serves.

**Modified Accrual Accounting:** A basis of accounting in which expenditures are accrued but revenues are accounted for on a cash basis. This accounting technique is a combination of cash and accrual accounting since expenditures are immediately incurred as a liability while revenues are not recorded until they are received or are “measurable” and available for “expenditure”. Since this type of accounting basis is a conservative financial approach, it is recommended as the standard for most governmental funds.

**Obligations:** Amounts that a government may be required legally to meet out of its resources. They include not only actual liabilities, but also unliquidated encumbrances.

**Operating Budget:** The authorized revenues and expenditures for on-going municipal services and is the primary means by which government is controlled. The life span of an operating budget typically is one year or less. The use of annual operating budgets is usually required by law.

**Ordinance:** A formal legislative enactment by the governing board of a municipality. If it is not in conflict with any higher form of law, such as state statute, it has the full force and effect of the law within the boundaries of the municipality to which it applies.

**Pension Trust Fund:** A trust fund used to account for public employee retirement systems.

**Performance Budget:** A budget that focuses upon activities rather than line items. Work load and unit cost data are collected in order to assess the efficiency of services. Typical data collected might include miles of streets paved per year, cost of paved streets per mile, tons of garbage collected per man hour, or cost per man hour of garbage collection.

**Performance Measures:** Specific quantitative and qualitative measures of work performed as an objective in the department.

**Property Tax:** Property taxes are levied on real property according to the property’s valuation and the tax rate.

**Rating:** The credit worthiness of a Village as evaluated by independent agencies.

**Requisition:** A written demand or request, usually from one department, to the purchasing office to another department for specific articles or services.

**Reserve:** An account used to indicate that a portion of a fund's balance is legally restricted for a specific purpose and is, therefore, not available for general appropriation.

**Revenue Bonds:** Bonds usually sold for constructing a project that will produce revenue for the government. The revenue is used to pay the principal and interest of the bond.

**Revenue:** Funds that the government receives as income. It includes such items as tax payments, fees from specific services, receipts from other governments, fines, forfeitures, grants, shared revenues and interest income.

**Risk Management:** An organized attempt to protect a government's assets against accidental loss in the most economical method.

**Securities:** Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.

**Special Revenue Fund:** A fund used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

**Surplus:** An excess of the assets of a fund over its liabilities and reserves.

**Tax Anticipation Notes:** Notes issued in anticipation of collection of taxes and retired from the proceeds of the tax levy whose collection they anticipate.

**Tax Increment Financing (TIF) District:** Areas of the Village (as defined by State law) in need of development/redevelopment improvements that use a portion of property taxes collected in this area to make public improvements.

**Tax Levy:** The total amount to be raised by general property taxes for purposes specified in the Tax Levy Ordinance.

**Tax Rate:** The amount of tax levied for each \$100 of equalized assessed valuation. The tax rate times equalized assessed valuation equals the tax levy.

**Transfers In/Out:** A legally authorized funding transfer between funds in which one fund is responsible for the initial receipt and the other fund is responsible for the actual disbursement.

**User Charges:** The payment of a fee for direct receipt of a public service by the party benefiting from the service.